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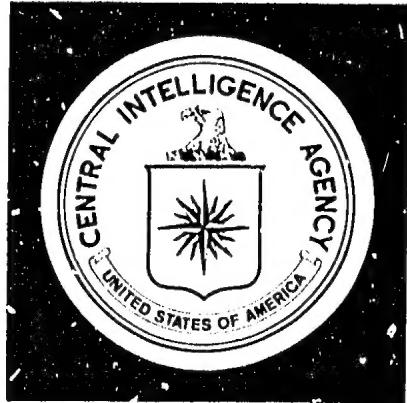
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Economic Intelligence Weekly

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CIA No. 7825/73
25 October 1973

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CONTENTS

	<u>Page</u>
Notes	
Possible Large Soviet Purchase of US Soybean Meal	1
USSR to Enrich Uranium for West Germany	1
	25X1
International Monetary Developments	1

Articles

Worldwide Grain Developments	3
Foreign Growth Trends in 1974 <i>Principal US trading partners, except for Italy, will experience slower growth next year.</i>	5
The Impact of Increased Oil Prices <i>The trade balances of the United States, Western Europe, and Japan will suffer, but production will be little affected.</i>	7
Arab Oil: Production Cutbacks and Embargoes <i>The Arab oil cutbacks and embargoes are certain to continue for some time.</i>	9

Comparative Indicators

Recent Data Concerning Domestic and External Economic Activity	Inside Back Cover
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25X1

Note: Comments and queries on the contents of this publication are welcomed. They may be directed to
 to [redacted]

~~SECRET~~**ECONOMIC INTELLIGENCE WEEKLY****Notes****Possible Large Soviet Purchase of US Soybean Meal**

High Soviet officials reportedly told a US grain trader in Moscow last week that they wanted to buy 1 million to 2 million tons of pelletized soybean meal during the current crop year at about \$180 per ton (including shipping costs). Negotiations are to begin on 26 October. The deal would substantially boost the previously expected US exports of soybean cake and meal of almost 7 million tons during October 1973 to September 1974. US output of soybean cake and meal for 1973/74 is estimated by USDA at 18.4 million tons. US export controls on soybean products were lifted on 1 October, and prices have been settling down during the past weeks. News of such a deal would begin a price spiral again. (CONFIDENTIAL)

USSR to Enrich Uranium for West Germany

Three West German utilities have signed uranium enrichment contracts with the Soviet Union valued at \$44 million. The uranium will fuel nuclear power reactors accounting for 5% of German power capacity in 1978. Another firm has obtained an option to purchase at least \$64 million worth of enrichment services from the USSR. If the option is picked up, Moscow will have pre-empted about 40% of the West German market for uranium enrichment during 1976-80. Until this year, the United States had a monopoly on supplying enrichment services to West Germany.

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International Monetary Developments

Since 5 October, the dollar has dropped 0.5% to 2.5% relative to the major European currencies. Contributing to the decline were US vulnerability to Arab oil and monetary pressures, recent US political uncertainties, the fall in US interest rates, and renewed pressure on the European joint float.

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25 October 1973

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Restrictive Dutch monetary policy has forced up the value of the guilder and stretched the joint float band to its fullest. Traders are speculating that the guilder again will be revalued, and the Dutch central bank has had to provide considerable support to the weaker currencies -- the French and Belgian francs and the Swedish and Norwegian crowns -- to keep them within the band. This support has helped to strengthen the weaker band currencies relative to the dollar. (UNCLASSIFIED)

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Articles

Worldwide Grain Developments

World Rice Supplies

World rice output in the current crop year should approach the record 200 million tons of 1969/70. High prices brought an expansion of acreage, and rainfall has been normal in most of Asia's main rice growing areas. The expected crop is about 15 million tons larger than last year's, but rice supplies will remain tight. Exports will be smaller this year than last year's 7 million to 8 million tons, because countries will need to increase stocks. Moreover, with consumption rising some 5 million tons annually, no sizable sustained decline in prices seems likely through mid-1974.

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China-Canada-Australia

Peking recently signed agreements with Canada and Australia to buy wheat during 1974-76.

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Contracts will be signed at six-month intervals at prevailing prices. At today's prices the two deals amount to \$2.1 billion plus \$100 million for shipping.

The agreements with Canada and Australia are aimed at reducing dependence on the United States, which provided 60% of Chinese grain imports in 1973. The United States, nevertheless, will continue to be a major supplier. China's imports are expected to average about 6.5 million tons annually during 1974-76, of which about 3.5 million tons will be provided by Canada and Australia. Although France and Argentina can be expected to meet some of the remaining needs, the bulk seems likely to come from the United States.

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China: Grain Imports, by Calendar Year

	Thousand Tons				
	1970	1971	1972	1973	1974 ¹
Total	4,632	3,026	4,844	7,541	4,950
Canada	1,967	3,013	3,882	2,450	2,000
Australia	2,218	13	....	600	1,500
Argentina	....	....	....	125	....
France	447	....	....	....	....
United States	....	....	962	4,366	1,450

1. Preliminary; including contracts signed or expected to be signed as of 19 October 1973.

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Eastern Europe

Drought in most of Eastern Europe has delayed some grain sowing and retarded germination. Wheat planted after October in the northern countries will be more susceptible than usual to winter damage. Unless it rains soon, both the acreage and yields of winter grain, especially wheat, will be reduced substantially, thus necessitating larger imports in FY 1975.

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USSR

Izvestia last week published the first official prediction of this year's Soviet grain harvest -- a gross output of at least 197 million tons. This compares with 168 million tons last year and the previous record of 187 million tons in 1970. Some Soviet officials previously had assessed the crop cautiously because of wet harvesting conditions. On the basis of reported yields, we estimate a harvest of 165 million tons of usable grain, equivalent to a gross harvest as large as 220 million tons.

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India

Prospects for an excellent fall harvest and expected imports of nearly 4 million tons of foodgrains during the coming months are easing India's tight food situation. Grain prices have declined in areas where early maturing crops have been harvested and are beginning to fall in the cities as the harvest reaches the market. India will continue, however, to make small purchases of foreign grains to rebuild its stocks.

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China-Egypt

Although a large net grain importer, China has agreed to provide Egypt with 100,000 tons of wheat worth at least \$20 million. This political move will meet 3% of Egypt's estimated grain import needs this year. China will also provide other foodstuffs or hard currency as part of a \$30 million aid package.

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EC

The EC has lowered the subsidy for converting wheat to livestock feed, thereby making available an additional 4 million to 5 million tons of wheat for human consumption during FY 1974. This move could reduce net wheat imports from 5 million tons to about 1 million tons, easing the pressure on US supplies. At the same time, EC requirements for feedgrains and protein meal will boost demand for US corn and soybeans.

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25 October 1973

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Foreign Growth Trends in 1974

Principal US trading partners, except for Italy, will experience slower growth next year. Their combined real growth will probably decline from about 8% in 1973 to about the long-term average of 6% in 1974.

- Despite a slowdown, Japan will continue to grow about twice as fast as most other developed countries, with private investment and consumer spending major factors in the expansion.
- A decline in housing expenditure will be a prominent factor in the French and Canadian decelerations.
- West German growth is expected to decline, largely because of a construction downturn.
- Slackening consumer spending will cause British growth to fall sharply.
- Italy will grow more rapidly as it recovers from its 1970-72 doldrums.

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The CIA growth forecasts are fairly similar to those made by the OECD
 [redacted]
 (see the Table).

Inflation will remain a central problem for our trading partners, primarily because of monetary expansion and accelerating wage demands.

- In 1974, prices will rise in West Germany, France, the United Kingdom, and Canada at nearly the 1973 rates – about 6% to 7%.
- Japanese and Italian inflation probably will slow from 12% and 11% to about 9%.

Although most are tightening monetary and fiscal controls, fears of inhibiting economic growth have prevented all but West Germany from moving decisively. On balance, their policies are neutral or even moderately expansionary. Additional controls may be imposed, however, if inflation is not slowed. France reportedly is pressing for an EC-wide wage and price freeze, probably in the hope that a Community program will arouse less political opposition at home.

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25 October 1973

Comparative Real GNP Growth Rate Forecasts

	OECD	[redacted]	CIA	25X1
Canada				
1973	7.3	7.0	6.5	
1974	5.3	5.9	5.0-5.5	
Japan				
1973	11.7	9.9	12.0	
1974	8.6	9.5	10.0	
France ²				
1973	6.3	4.1	6.6	
1974	5.7	4.3	5.5	
West Germany				
1973	6.2	4.5	6.0	
1974	3.5	2.3	4.0	
Italy				
1973	5.6	6.1	4.5	
1974	7.5	3.0	5.4	
United Kingdom 2				
1973	6.8	6.8	6.5	
1974	3.6	4.0	3.0	

[redacted] 2. Gross domestic product.

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The expected slowdown in the countries' economic growth will not necessarily hurt the US trade balance, since the US growth rate will also decline. The trade balance should even be helped by a greater deceleration of economic growth in the United States than in other developed countries, by a better US record in curbing inflation, and by the delayed price effects of the dollar's depreciation. In any case, the US trade position will depend heavily on other factors, notably price trends for imported oil and agricultural exports.

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The Impact of Increased Oil Prices

The expected increase in Persian Gulf oil prices of about \$1.30 a barrel will have a substantial impact on the trade balances of the United States, Japan, and Western Europe. Assuming that the increases are adopted by all major oil exporters and that oil deliveries are normal next year, the oil import bills of the United States and Japan would each increase by about \$3 billion; for Western Europe, the additional cost would approach \$8 billion.

- The oil price rise could eliminate an expected \$2 billion to \$3 billion 1974 US trade surplus.
- The Canadian trade balance probably will be little affected; Canadian oil imports roughly equal exports.
- Japan's expected \$6 billion surplus could be halved.
- The West Germans could pay an additional cost of about \$1.8 billion - the highest in Europe - but will feel the least hardship because their 1974 trade surplus will be on the order of \$8 billion.
- The UK deficit could rise from about \$3.5 billion to almost \$5 billion.
- The oil import bill of both France and Italy could rise by about \$1.5 billion. This increase would reduce the French surplus to near zero. Italy would have a deficit of about \$1.5 billion to \$2 billion.

The rise in oil prices in the consuming countries will be partly offset by larger exports to the producers. Only part of the producers' revenue increase of \$15 billion will be spent on imports next year.

Although the oil importers' trade balances will deteriorate sharply, the domestic impact probably will be slight. Production in the consuming countries will not be affected materially by the oil price increase. Generally, the sharp rise in crude oil prices should not lead to large increases in the price of finished goods because energy costs are a relatively small share of total manufacturing costs.

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The form in which the oil producers choose to hold their reserves could have an appreciable impact on the international exchange rate system and, through it, ultimately on the volume of exports and imports. Despite the Middle East war, the Arab nations apparently have not engaged in any substantial dollar selling. Moreover, with the dollar generally recognized as being undervalued, the Arabs probably will hold most of their increased future receipts in dollars. This, in turn, could lead to a strengthening of the dollar on world exchange markets.

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Pre-War Estimated Arab Oil Trade, 1973¹

Thousand Barrels per Day

Arab Oil Producers	Western Europe												
	Total Exports	United States	Total	West Germany	United Kingdom	France	Italy	Netherlands	Other	Japan	Canada	Communist Area	Other
Total Arab	18,600	1,600	11,300	1,650	1,600	2,100	1,750	1,450	2,750	2,300	150	400	2,850
Percent of Exports	100	8.6	66.8	8.9	8.6	11.3	9.4	7.8	14.8	12.4	0.8	2.1	15.3
Saudi Arabia	8,000	600	4,350	500	550	600	700	750	1,250	1,250	50	Negl.	1,750
Percent of Exports	100	7.5	54.4	6.2	6.9	7.5	8.8	9.4	15.6	15.6	0.6	Negl.	21.9
Kuwait	3,100	150	1,750	100	350	300	300	350	350	650	Negl.	...	550
Percent of Exports	100	4.8	56.5	3.2	11.3	9.7	9.7	11.3	11.3	21.0	Negl.	...	17.1
Libya	2,200	350	1,700	500	250	150	400	100	300	Negl.	50	100	...
Percent of Exports	100	15.9	77.3	22.7	11.4	6.8	18.2	4.6	13.6	Negl.	2.3	4.5	...
Iraq	1,900	50	1,300	100	100	400	350	Negl.	350	50	Negl.	200	300
Percent of Exports	100	2.6	68.5	5.3	5.3	21.1	18.4	Negl.	18.4	2.6	Negl.	10.5	15.8
Abu Dhabi	1,150	150	600	...	200	300	...	...	100	300	50	Negl.	50
Percent of Exports	100	13.1	52.2	...	17.4	26.1	...	...	8.7	26.1	4.3	Negl.	4.3
Algeria	1,100	150	750	250	Negl.	250	...	50	200	...	...	50	150
Percent of Exports	100	13.6	68.2	22.7	Negl.	22.7	...	4.6	18.2	...	...	4.6	13.6
Other Arab	1,150	150	850	200	150	100	...	200	200	50	Negl.	50	50
Percent of Exports	100	13.1	73.9	17.4	13.0	8.7	...	17.4	17.4	25X 1.3	Negl.	4.3	4.3

1. This table allocates imports on direct and indirect basis - i.e., refined products from export refineries are traced to source of crude oil. The estimates are a yearly average for 1973 and therefore differ from estimates made at any specific time. For example, US dependence on Arab oil has increased throughout the year and in October is nearly 2 million barrels per day.

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Arab Oil: Production Cutbacks and Embargoes

The Arab oil cutbacks and embargoes are certain to continue for some time. All Arab producers have embargoes against the United States, and Iraq, Algeria, and Kuwait have also cut off the Netherlands. Saudi Arabia, Kuwait, Abu Dhabi, Algeria, and Qatar have announced immediate 10% production cutbacks to be followed by 5% monthly reductions. Iraq's production is down sharply because of extensive damage to its main export terminal in Syria.

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Arab oil production on 30 November could be 4 million b/d less than in September. Western Europe and Japan, which depend on Arab oil for 70% and 40% of their respective needs, will bear the brunt of the cutback.

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DOMESTIC ECONOMIC INDICATORS

GNP*

Constant Market Prices

	Average Annual Growth Rate Since				
	Latest Quarter	Percent Change from Previous Quarter	1970	1 Year Earlier	Previous Quarter
United States	73 III	0.9	5.0	5.7	3.7
Japan	73 II	1.4	9.1	13.0	5.9
West Germany	73 II	-2.3	3.8	0.2	-8.8
France	73 I	3.3	8.1	5.1	13.8
United Kingdom	73 II	0.7	4.6	9.5	2.7
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 II	0.9	6.1	6.8	3.7

WHOLESALE PRICES

Industrial

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Sep 73	0.5	4.9	7.9	3.8
Japan	Sep 73	1.8	5.7	18.7	28.0
West Germany	Sep 73	-0.1	4.7	6.6	1.0
France	Aug 73	1.0	7.1	10.2	20.5
United Kingdom	Sep 73	1.1	7.3	7.6	13.5
Italy	Jun 73	2.3	7.5	10.2	23.2
Canada	Jul 73	2.9	8.3	19.2	25.5

INDUSTRIAL PRODUCTION*

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Sep 73	0.8	8.0	10.2	11.4
Japan	Aug 73	1.1	8.9	17.2	8.4
West Germany	Jul 73	-4.5	2.2	5.0	-3.7
France	Aug 73	0	7.7	10.4	9.9
United Kingdom	Aug 73	0.7	3.7	8.2	0
Italy	Jun 73	-1.0	2.9	10.2	26.5
Canada	Aug 73	-3.1	5.6	8.0	1.6

CONSUMER PRICES

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Aug 73	1.8	4.9	7.5	11.4
Japan	Jul 73	0.7	7.3	11.9	11.0
West Germany	Aug 73	-0.1	5.8	7.2	2.5
France	Aug 73	0.7	6.3	7.6	9.4
United Kingdom	Sep 73	0.9	8.4	9.3	6.6
Italy	Jul 73	0.6	7.2	11.8	12.6
Canada	Sep 73	0.6	5.5	8.5	11.7

RETAIL SALES*

Current Prices

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Sep 73	-0.9	10.5	10.7	9.5
Japan	Jun 73	2.1	12.5	22.6	14.3
West Germany	Aug 73	4.2	9.0	4.2	1.2
France	Jun 73	3.4	6.4	7.2	5.5
United Kingdom	Aug 73	0.7	11.1	12.1	14.8
Italy	May 73	2.3	11.3	20.4	22.3
Canada	Jul 73	3.4	11.3	13.7	1.5

MONEY SUPPLY*

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Sep 73	-0.3	7.2	5.3	5.5
Japan	Jul 73	-0.6	17.9	32.4	12.7
West Germany	Jul 73	-1.7	9.6	4.8	-13.9
France	Apr 73	2.6	13.3	14.1	2.6
United Kingdom	Sep 73	-2.1	10.6	8.5	9.9
Italy	Apr 73	2.8	20.4	19.1	13.7
Canada	Aug 73	1.5	13.9	15.5	14.6

MONEY-MARKET RATES

	Representative Rates				
	Latest Date	1 Year Earlier	3 Months Earlier	1 Month Earlier	
United States	Prime finance paper	Oct 19	7.75	5.13	9.00
Japan	Call money	Oct 12	8.75	4.50	8.50
West Germany	Interbank loans (3 Months)	Oct 19	14.38	7.12	14.00
France	Call money	Oct 12	11.13	5.00	9.12
United Kingdom	Local authority deposits	Oct 12	14.44	4.88	13.83
Canada	Finance paper	Oct 19	9.00	5.13	8.75
Euro-Dollars	Three-month deposits	Oct 19	9.75	5.88	10.88

*Seasonally adjusted.

**Average for latest 3 months compared with average for previous 3 months.

25 Oct 73

EXTERNAL ECONOMIC INDICATORS

EXPORTS*
f.o.b.

	Latest Month	Cumulative		
		Million US \$		Percent Change
		1973	1972	
United States	Aug 73	8,004	44,102	39.3
Japan	Sep 73	3,128	25,758	27.0
West Germany	Aug 73	8,084	42,602	41.2
France	Sep 73	3,241	28,742	39.2
United Kingdom	Sep 73	2,584	21,220	20.8
Italy	Jun 73	1,937	9,479	6.0
Canada	Jul 73	2,075	13,918	23.7

EXPORT PRICES
US \$

	Latest Month	Percent Change			Average Annual Growth Rate Since	
		from Previous Month		1970	1 Year Earlier	3 Months Earlier
		Month	1970		Earlier	Earlier
United States	Aug 73	3.9	8.4	22.5	35.7	
Japan	Jul 73	4.3	12.8	23.8	40.0	
West Germany	Jul 73	12.1	17.1	34.7	117.8	
France	Jun 73	9.2	16.5	33.7	51.5	
United Kingdom	Aug 73	0.6	10.5	12.3	11.5	
Italy	Apr 73	0.9	8.2	9.8	24.7	
Canada	Jun 73	-0.6	5.5	10.4	11.8	

IMPORTS*
f.o.b.

	Latest Month	Cumulative		
		Million US \$		Percent Change
		1973	1972	
United States	Aug 73	8,020	44,881	24.4
Japan	Sep 73	2,725	22,154	83.8
West Germany	Aug 73	4,794	32,810	33.2
France	Sep 73	3,001	25,090	39.3
United Kingdom	Sep 73	3,018	24,429	30.2
Italy	Jun 73	2,212	10,720	8,092
Canada	Jul 73	1,949	12,977	10,618

EXPORT PRICES
National Currency

	Latest Month	Percent Change			Average Annual Growth Rate Since	
		from Previous Month		1970	1 Year Earlier	3 Months Earlier
		Month	1970		Earlier	Earlier
United States	Aug 73	3.9	8.4	22.5	35.7	
Japan	Jul 73	4.2	2.2	8.5	38.1	
West Germany	Jul 73	3.1	1.6	0.7	5.7	
France	Jun 73	3.8	5.0	13.1	14.6	
United Kingdom	Aug 73	2.0	9.2	10.8	18.6	
Italy	Apr 73	2.0	5.7	10.4	28.0	
Canada	Jun 73	-0.5	4.2	12.0	11.8	

TRADE BALANCE*
f.o.b./f.o.b.

	Latest Month	Cumulative (Million US \$)		
		Million US \$		Change
		1973	1972	
United States	Aug 73	-16	-719	-4,382
Japan	Sep 73	402	3,004	8,081
West Germany	Aug 73	1,890	9,792	5,540
France	Sep 73	240	1,052	789
United Kingdom	Sep 73	-434	-3,204	-1,203
Italy	Jun 73	-275	-1,241	776
Canada	Jul 73	126	941	835

IMPORT PRICES
National Currency

	Latest Month	Percent Change			Average Annual Growth Rate Since	
		from Previous Month		1970	1 Year Earlier	3 Months Earlier
		Month	1970		Earlier	Earlier
United States	Aug 73	2.1	10.6	20.6	19.2	
Japan	Jul 73	1.9	0.6	8.0	12.3	
West Germany	Jul 73	-1.9	-0.5	2.0	-9.2	
France	Jun 73	0.6	3.1	5.6	7.3	
United Kingdom	Aug 73	4.0	13.3	34.1	42.6	
Italy	Apr 73	3.3	8.5	16.7	49.2	
Canada	Jun 73	1.1	4.8	10.6	13.4	

BASIC BALANCE**
Current and Long-Term-Capital Transactions

	Latest Period	Cumulative (Million US \$)		
		Million US \$		Change
		1973	1972	
United States*	73 II	-800	-1,700	-5,700
Japan	Aug 73	-770	-5,926	1,457
West Germany	Jul 73	136	1,605	3,593
France	73 I	-578	-578	-524
United Kingdom	73 I	-995	-995	-446
Italy	72 IV	800	NA.	2,983
Canada	73 I	-272	-272	-117

EXCHANGE RATES Spot Rate

As of 19 Oct 73

	US \$ Per Unit	Percent Change from		
		Dec 68	1971	1973
Japan (Yen)	0.0038	36.14	15.88	-1.24
West Germany (Mark)	0.4147	84.96	33.84	-17.11
France (Franc)	0.2385	18.13	21.13	8.21
United Kingdom (Pound Sterling)	2.4380	-12.64	-6.43	-0.93
Italy (Lira)	0.0018	10.18	2.56	-0.34
Canada (Dollar)	1.0015	8.58	0.37	0.38

OFFICIAL RESERVES

	Latest Month	Billion US \$		
		Billion US \$		Change
		End of	Jun 1970	
United States	Aug 73	14.0	16.3	13.1
Japan	Sep 73	14.8	4.1	18.5
West Germany	Aug 73	37.9	8.8	24.6
France	Sep 73	9.9	4.4	10.0
United Kingdom	Sep 73	8.8	2.8	6.1
Italy	Jun 73	6.0	4.7	6.4
Canada	Sep 73	5.5	4.3	6.0

TRADE-WEIGHTED EXCHANGE RATES***

As of 19 Oct 73

	Dec 68	Percent Change from		
		1971	1973	1973
United States	-19.89	-10.12	-3.34	-0.30
Japan	22.39	8.39	-3.65	-0.02
West Germany	31.41	14.35	9.31	-0.74
France	-11.12	2.10	-0.33	0.45
United Kingdom	-35.89	-21.60	-7.14	0.17
Italy	-17.49	-16.28	-9.44	-0.49
Canada	4.44	-2.10	-0.45	0.38

*Seasonally adjusted.

**Converted into US dollars at current market rates of exchange.

25 Oct 73

***Weighting is based on each listed country's trade with 18 other industrialized countries to reflect the competitive impact of exchange-rate variations among the major currencies.